



News Release

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IRS INCREASES CRIMINAL INVESTIGATIONS OF TAX RETURN PREPARERS; TAXPAYERS ADVISED TO USE CARE IN SELECTING PREPARERS

WASHINGTON – The Internal Revenue Service more than doubled the number of criminal investigations of preparers of federal tax returns in 2002 compared to the previous fiscal year, according to figures released by IRS Criminal Investigation.

In Fiscal Year 2002, 254 investigations were initiated, compared to 116 the year before. More cases were referred to the Department of Justice for prosecution – 89 in FY 2002, up from 73 the year before. Preparers convicted of tax crimes received longer average prison terms – 27 months in FY 2002, up from 20 months the year before.

Additionally, there has been a significant increase during the first quarter of fiscal year 2003 in the number of criminal investigations referred to the Department of Justice for prosecution regarding individuals whose occupation includes:

	<u>1st Qtr 2002</u>	<u>1st Qtr 2003</u>
Accountant	12	28
Electronic Return Originator (ERO)	2	11
Return Preparer	15	40

"We are seeing more and more activity involving unscrupulous tax preparers," said David Palmer, Chief, IRS Criminal Investigation. "We urge taxpayers to take some simple steps to avoid being snared by a person selling bad tax advice."

Return preparer fraud generally involves the preparation and filing of false income tax returns (in either paper or electronic form) by preparers who claim inflated personal or business expenses, false deductions, unallowable credits or excessive exemptions on returns prepared for their clients. Abusive preparers may also manipulate income figures to obtain fraudulent tax credits, such as the Earned Income Tax Credit.

In recent criminal investigations involving unscrupulous or abusive return preparers, IRS has found that these preparers derive financial benefit from the fraud in a number of ways, including:

- Diverting a portion of the refund for their own benefit,
- Charging inflated fees for the return preparation services, and
- Increasing their clientele by advertising guaranteed larger refunds.

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“The vast majority of return preparers are honest and reputable,” said Palmer. “Those who aren’t can create considerable financial problems for their clients, so taxpayers really need to choose carefully when hiring a preparer.”

Signs that a preparer could be abusive include:

- Claiming that they can obtain larger refunds than other preparers,
- Basing their fee on a percentage of the amount of the refund, and
- Refusal to sign the tax return or provide the taxpayer with a copy for their records.

Unscrupulous tax return preparers are generally prosecuted for violation of the Internal Revenue Code, which is Title 26 of the United States Code. Specifically, Title 26 U.S. Code Section 7201, Attempt to Evade or Defeat Tax, is a felony offense and carries a maximum potential penalty of up to 5 years in prison and a fine of up to \$250,000. Title 26, U.S. Code, Section 7206 (1) and (2), Fraud and False Statements, carries a maximum potential penalty of up to 3 years in prison and a fine up to \$250,000.

“Taxpayers need to keep in mind that they are ultimately responsible for their tax return,” said Palmer. “There are some simple steps they can take to protect themselves.”

Whether a tax preparer simply makes an error or intentionally commits fraud, it is the taxpayer who actually owes the tax and any penalties and interest on the taxes owed but not paid.

The IRS recommends that taxpayers follow these tips when hiring a preparer:

- Get referrals from satisfied clients.
- Ask the preparer about their training, experience and current knowledge of tax law.
- Find out whether the preparer has ever represented taxpayers in an audit, or has ever been denied eligibility to do so.¹
- Consider whether the individual or firm will be around to answer questions about the preparation of the tax return months or even years after the return has been filed.

And most importantly, taxpayers should:

- Always review their return before signing, ask questions on entries they don't understand, and get a copy of the return for their records, and
- Never, ever sign a blank tax form or one filled out in pencil.

¹ This bullet originally read: “Find out whether the preparer can represent taxpayers in an audit. Only Enrolled Agents, Certified Public Accountants and lawyers are authorized to represent taxpayers before the IRS.” This was incorrect and the text was revised.

Anyone who suspects tax fraud or knows of an abusive return preparer should call the IRS Tax Fraud Hotline at 1-800-829-0433.

For more information on tax preparer fraud, check out Fact Sheet FS-03-10, "Return Preparer Fraud – Significant Cases," on "The Newsroom" page of the IRS Web site, *IRS.gov*.

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